

AUDITING PROCEDURES REPORT

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Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Charter Township of Shelby</u>	County Macomb
Audit Date December 31, 2005	Opinion Date May 12, 2006	Date Accountant Report Submitted To State: June 20, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 S. Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature 			

Charter Township of Shelby Macomb County, Michigan

**Financial Report
with Supplemental Information
December 31, 2005**

Charter Township of Shelby

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Charter Township of Shelby

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Shelby
Macomb County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Shelby's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedule of funding progress (as identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Charter Township of Shelby
Macomb County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Shelby's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

May 12, 2006

Charter Township of Shelby

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements and supplemental information. The statement of net assets and the statement of activities are presented to provide information about the financial resources and activities of the Charter Township of Shelby on a government-wide basis. They are designed to present a more comprehensive longer-term view of the Township's financial condition, cost of delivering services, and results of operations as a whole governmental unit rather than as a group of separately operated funds. The individual fund financial statements follow the above-mentioned statements and illustrate how the services provided by the Township were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the Township's operations in more detail than the government-wide financial statements.

Immediately below is an introductory narrative section discussing and analyzing the Township's financial performance, governmental and business activities, economic environment and other significant issues impacting the Township's financial health.

Initiating this management's discussion and analysis, the table below, in a condensed format, compares the Township's net assets (in millions of dollars) as of December 31, 2005 to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 66.0	\$ 57.6	\$ 46.0	\$ 40.6	\$ 112.0	\$ 98.2
Noncurrent assets:						
Restricted assets	-	-	3.3	7.3	3.3	7.3
Capital assets	36.4	34.1	115.4	105.7	151.8	139.8
Total assets	102.4	91.7	164.7	153.6	267.1	245.3
Liabilities						
Current liabilities	30.8	26.2	7.5	6.9	38.3	33.1
Long-term liabilities	1.0	2.4	32.2	28.1	33.2	30.5
Total liabilities	31.8	28.6	39.7	35.0	71.5	63.6
Net Assets						
Invested in capital assets -						
Net of related debt	36.4	32.5	82.1	80.6	118.5	113.1
Restricted	17.2	13.5	4.8	5.1	22.0	18.6
Unrestricted	17.0	17.1	38.1	32.9	55.1	50.0
Total net assets	<u>\$ 70.6</u>	<u>\$ 63.1</u>	<u>\$ 125.0</u>	<u>\$ 118.6</u>	<u>\$ 195.6</u>	<u>\$ 181.7</u>

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The Township's combined net assets increased 7.6 percent from a year ago, increasing from \$181.7 million to \$195.6 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$7.5 million in net assets, or 11.8 percent, during fiscal year 2005. This increase was the result of road paving, intersection renovations, and numerous capital projects. The Township continues discussion and planning of a future expanded campus with a Police/Judicial Building, a Recreation Building, and a Library. The Township board approved in early 2006 the creation of a Downtown Development Authority to plan and facilitate further campus and thoroughfare enhancements. The Township completed development of five ball diamonds on land donated by Ford Motor Company. The ball fields offer facilities for both little league and adult softball games. The business-type activities experienced a 5.4 percent increase in net assets. This was primarily due to contributions of water and sewer lines by developers, the continued growth in the customer base, and weather conditions.

Unrestricted net assets for the governmental activities were \$17.0 million at December 31, 2005. Unrestricted assets for business-type activities were \$38.1 million. These amounts represent the part of net assets that is available to finance day-to-day operations and future growth of the Township, and for the maintenance and expansion of water and sewer lines and improvements to our senior housing complex.

The following table shows the changes in net assets (in million of dollars) as of December 31, 2005 and the prior year:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 7.7	\$ 7.1	\$ 18.7	\$ 15.9	\$ 26.4	\$ 23.0
Operating grants and contributions	0.9	0.5	-	-	0.9	0.5
Capital grants and contributions	0.3	3.5	5.1	5.2	5.4	8.7
General revenue:						
Property taxes	26.8	25.2	-	-	26.8	25.2
State-shared revenue	5.1	5.1	-	-	5.1	5.1
Interest	1.4	0.5	1.4	0.6	2.8	1.1
Other	0.9	0.9	0.2	0.2	1.1	1.1
Transfers	0.3	0.2	(0.3)	(0.2)	-	-
Total revenue	43.4	43.0	25.1	21.7	68.5	64.7

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Expenses						
General government	\$ 8.1	\$ 7.7	\$ -	\$ -	\$ 8.1	\$ 7.7
Public safety	20.9	18.9	-	-	20.9	18.9
Public works	1.5	0.6	-	-	1.5	0.6
41st District Court	1.8	1.8	-	-	1.8	1.8
Recreation and culture	3.6	3.3	-	-	3.6	3.3
Interest on long-term debt	0.1	0.1	-	-	0.1	0.1
Shelby Manor senior housing	-	-	1.2	1.2	1.2	1.2
Water and sewer	-	-	17.5	14.2	17.5	14.2
Total program expenses	36.0	32.4	18.7	15.4	54.7	47.8
Change in Net Assets	7.4	10.6	6.4	6.3	13.8	16.9
Net Assets - Beginning of year (Restated)	63.2	52.5	118.6	112.3	181.8	164.8
Net Assets - End of year	<u>\$ 70.6</u>	<u>\$ 63.1</u>	<u>\$ 125.0</u>	<u>\$ 118.6</u>	<u>\$ 195.6</u>	<u>\$ 181.7</u>

Governmental Activities

The Township's total governmental revenues increased by approximately \$300,000 from the last fiscal year. State-shared revenue increased by \$51,414. Property tax and charges for services increased by \$2.2 million and interest on investments continues to recover, moving from \$500,000 to \$1.4 million. This growth helped mitigate some of the recent impact of state-shared revenue and other economy-driven fluctuations. Total revenues remained flat from 2004 to 2005 given the strong increase in property tax and interest because of the one-time capital grant from Ford Motor Company in 2004.

Expenses increased by about \$3.6 million, or 11.1 percent, over the last fiscal year in total governmental activity. This increase resulted from the continued growth of Shelby Township and the various needs of the community. General government services increased in cost by 5.2 percent over 2004. Public safety increased by 10.6 percent. Many operating costs for these programs remained relatively flat, although auto repair and gasoline expense increased an average of 38 percent and health care increased an average of 13 percent. A comparison of fluctuation in wages and other employee-related costs is moot at this time because of ongoing contract negotiations. This condition applies to all programs operated with human resources: general government, public safety, 41st District Court, recreation and culture, and water and sewer. Public works doubled in cost from 2004 because of completion of multiyear sidewalk projects that are not capitalized according to Township policy. Township management continues to support a postemployment benefit fund and obtained an actuarial funding recommendation. Discussions continue at board level on the funding options available under Act 451 and the most judicious process to follow in the fiscal challenge of providing health care to our retired employees.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities are recorded in the Water and Sewer Fund and Senior Housing Fund. Revenues of the Township's business-type activities increased 15.7 percent, from \$21.7 million to \$25.1 million. The net increase of \$3.4 million in total revenue was primarily the result of the following: Water and Sewer Fund operating revenues increased by approximately \$2.8 million as a result of both water and sewer rate increases and a combined 12.7 percent increase in the number of water and sewer units sold. The increase in units sold was attributable to a 4.7 percent increase in the number of customers and a warmer and drier 2005 summer season as compared to 2004. Water and Sewer Fund interest income increased by \$800,000 as a result of a doubling of the effective interest rates earned on its cash deposits and temporary cash investments. The dramatic increase in interest rates was not the result of a change in investment strategy or policy, but rather it was the result of the general economic environment and the Federal Reserve Board's continual and persistent rate increases. Water and Sewer Fund capital grants and contributions remained essentially flat, decreasing only \$100,000. Shelby Manor Fund's operating revenues remained flat at \$1.6 million for both 2005 and 2004. By board policy, annual rent increases are limited to increases in cost of operation and rate of inflation.

Business-type activity expenses increased 21.4 percent, from \$15.4 million in 2004 to \$18.7 million in 2005. This increase of \$3.3 million in expenses was also the result of the following factors: water purchases and sewage disposal costs increased \$1.5 million. Increases in these operating expenses were affected by the same drivers that impacted water and sewer revenues, that is, rate increases and increased usage caused by an increased customer base and weather. Depreciation expense increased \$1.2 million in 2005 as a consequence of revising the estimated useful lives of Township's water mains and sewer lines downward from 65 years to 50 years, and capitalizing its proportionate share of the Garfield Interceptor. Capitalization of the Garfield Interceptor is discussed in more detail below. Interest expense experienced a net increase of \$700,000. The increase was brought on by the debt recognized with the capitalization of the Garfield Interceptor. The Water and Sewer Fund's interest on bonds decreased by approximately \$100,000. The rates on these bonds are fixed and as the bonds mature and are retired, bond interest diminishes. The Water and Sewer Fund did not sell or issue new bonds in either 2005 or 2004. Shelby Manor Fund operating expenses remained flat in 2005.

The Township's Water and Sewer Fund's other 2005 operating expenses, exclusive of water purchases, sewage disposal costs, and depreciation, closely mirror 2004 levels despite continued growth in its number of customers increased expansion of its facilities. This fund's water segment provides water, which is purchased from the City of Detroit water system, to 23,990 accounts, or nearly all its residents and commercial entities. Rate increases for water from Detroit are apportioned to residents at the same level received by the Township. The Township also provides sewage treatment to 12,777 accounts, or approximately half of its water customers, through the Macomb County sewage treatment plant. During fiscal year 2005, the number of water and sewer users increased 3.7 percent and 6.7 percent, respectively.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

To provide for the growing demands on its sewer system, the Township participates in a cost-share project for the Garfield Interceptor with two adjoining communities. In 2005, the Water and Sewer Fund capitalized and added to the Fund's infrastructure its proportional share of this facility. In addition, the Water and Sewer Fund recognized, as debt, the present value of its future obligation to pay for the Township's share of the project costs. As a result of recording, as an asset, its beneficial interest in the Garfield Interceptor and the related debt, as a liability, the Water and Sewer Fund recognized an additional \$300,000 in depreciation expense and an additional \$800,000 in interest expense.

In 2004, the Township began \$8,000,000 of water and sewer bond-funded construction projects that connect isolated sections of the system to improve system service, efficiency, and availability. These construction and expansion projects continued throughout 2005.

The Township's Funds

Our analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds for 2005 include the General Fund, the Police Fund, and the Fire Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township board and administration monitor and amend the budget to take into account unanticipated events that occur during fiscal year 2005 and acceleration of multiyear capital projects. The revenue budget was amended upwards by \$1 million in 2005, the most significant amendments being increases in fines and forfeitures and interest income (see reference to interest income under business-type activities). The state-shared revenue budget was initially decreased by \$72,000 based on information posted on the State's website. At year end, state-shared revenue exceeded the amended budget by \$194,221, a refreshing outcome. The Township's budgeting philosophy requires conservative revenue estimates and an aggressive and comprehensive investigation of fluctuations of operating, capital, and potential unexpected costs. The Township completed the year with a \$562,399 favorable variance between budgeted and actual revenues and a favorable expenditure budget variance of \$1,024,799 due primarily to timing shifts in infrastructure and other capital projects and the difficulty in predicting fluctuations in temporary labor needs, gasoline and utility costs, and the improvement and maintenance costs of aging Township buildings and parks. As stated earlier, all but one labor contract is under negotiation and appropriate accruals of related liabilities are recorded.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of fiscal year 2005, the Township had \$195.4 million in historical cost invested in a wide range of capital assets, including land, buildings, fire equipment, computer equipment, water and sewer lines, and library books. These capital assets include Township infrastructure that includes roads, bridges, and intersections, in which it has invested since 1980. The infrastructure represents a usage right to these assets. The value of the infrastructure assets for governmental funds, net of depreciation contained in this report, is \$10.7 million and \$8.9 million for fiscal years 2005 and 2004, respectively. Enterprise Funds' infrastructure for 2005 and 2004 (including construction in progress), net of depreciation, is \$99.9 million and \$89.9 million, respectively (see Note 3 for additional information). Additionally, the value of buildings and improvements for the governmental activities, net of depreciation, is \$9.7 million and \$9.3 million for fiscal years 2005 and 2004, respectively. Enterprise Funds' buildings and improvements, net of depreciation, are \$13.8 million and \$13.9 million for 2005 and 2004, respectively.

During 2005, the Township reduced its estimate of useful lives for water and sewer lines from 65 to 50 years as previously discussed under business-type activities. Use of a 50-year life for the systematic depreciation of the historical cost of these types of assets coincides with industry standards and practices as reported by the Township's independent inventory and asset appraiser. The reduced life also makes Township depreciation practices more consistent with and comparable to our neighboring communities.

Debt reported in these financial statements is related to the construction of the above-mentioned buildings and infrastructure and is reported as a liability on the statement of net assets (see Note 6 for additional information).

Economic Factors and Next Year's Budgets and Rates

Shelby Township reduced its property tax millage rate in 2005 from 9.4104 to 9.3199 as a result of the Headlee Amendment. These are the lowest millage rates since 1974. Strong expenditure controls and past growth in the Township's tax base have prevented millage rate increases for operations. Property taxes make up approximately 18 percent of the General Fund budget. Annual new growth and development in the Township have increased taxable value for all properties from \$3.074 billion to \$3.079 billion (including IFTs) and are expected to continue for the next few years. The growth in Township property tax from new development helps to offset the fluctuations and uncertainty in state revenue sharing, which represents nearly 31 percent of the General Fund budget. The General Fund budget is prepared on the assumption that future increases in state-shared revenue are unpredictable due to state cutbacks and less sales tax receipts at the state level.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

On the expense side, the Township continues to operate with relatively low personnel costs and an efficient labor force. Our General Employee Pension Fund is fully funded. Our Police and Fire Pension Fund is funded at a level above the annual actuarial recommendation. Although pension fund contributions are affected by the fluctuations in the stock and bond market and these fluctuations may require additional funding in the future, in 2002, the Township restructured its property tax component to provide additional funding for the Police and Fire Pension Fund. At that time, this fund's millage rate increased from .5 to 1, which was accomplished by changing the Police Fund millage to ad valorem from special assessment. The restructuring of the millage components doubled property tax revenue to the Pension Fund. The reduction in the Police Fund property tax rate is offset by increased revenues through growth and personal property tax collections. The Township board aggressively pursues a permanent solution to pension and health care funding to spare future taxpayers the cost of funding present benefits. In that regard, the Township contracted the services of a health care consultant to assist with Medicare D legislation, GASB 45 solutions, and health care cost efficiencies and labor negotiations. Because the Township is experience rated, we anticipate holding annual increases in medical costs to approximately 4 percent to 5 percent for the very near future. With these costs and ongoing road, intersection, and sidewalk projects and other capital improvements, we anticipate the major governmental funds' expenditures will increase between 12 percent and 15 percent in the next budget year. The Township's 10-year experience in change in General Fund fund balance has been an average increase of \$481,000. The Township has several large capital projects on the table for year 2006, including two pedestrian bridges over a major highway, paving of a dirt road to improve traffic flow, and completion of a bike path through River Bends Park providing access to communities to the South. Starting in 2005, the Township undertook a project to develop a comprehensive five-year technology plan as well as selection of new financial, imaging, and recreation software and migration to a PC-based platform.

The board faces the challenge of distributing its revenue stream among the demands of a growing community and the necessity of maintaining its strong infrastructure and investment in technology and human resources.

The Township enjoys a strong bond rating of A1 from Moody's and AA- from Standard and Poor's on our Water and Sewer revenue bonds. This, of course, reduces the interest rate costs when seeking financing in the bond market and gives the Township flexibility in planning for its many capital projects.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the Shelby Township finance department.

Charter Township of Shelby

Statement of Net Assets December 31, 2005

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
Assets			
Cash and investments (Note 2)	\$ 34,619,689	\$ 40,581,652	\$ 75,201,341
Receivables:			
Customers	-	4,028,071	4,028,071
Taxes - Net of reserve for uncollectible taxes	28,509,839	-	28,509,839
Special assessments - Current	-	325,403	325,403
Other	449,860	25,888	475,748
Due from other governmental units	1,748,353	-	1,748,353
Internal balances	199,416	(199,416)	-
Inventories	-	191,968	191,968
Prepaid costs	470,709	274,543	745,252
Restricted assets (Notes 2 and 7)	-	3,339,810	3,339,810
Special assessments - Net of current portion	-	803,160	803,160
Capital assets not being depreciated (Note 3)	11,128,458	6,105,137	17,233,595
Capital assets being depreciated - Net (Note 3)	25,277,349	109,225,267	134,502,616
Total assets	102,403,673	164,701,483	267,105,156
Liabilities			
Vouchers payable	845,624	2,066,641	2,912,265
Accrued and other liabilities	1,016,060	2,106,823	3,122,883
Current liabilities payable from restricted assets (Note 7)	-	325,599	325,599
Unearned revenue	28,644,902	1,457,662	30,102,564
Noncurrent liabilities (Note 6):			
Due within one year	282,788	1,565,257	1,848,045
Due in more than one year	1,014,616	32,183,859	33,198,475
Total liabilities	31,803,990	39,705,841	71,509,831
Net Assets			
Invested in capital assets - Net of related debt	36,405,807	82,071,500	118,477,307
Restricted:			
Bond covenants (Note 7)	-	2,361,238	2,361,238
Special assessments (Note 6)	-	2,428,965	2,428,965
Police and fire	16,783,460	-	16,783,460
Street lighting	172,177	-	172,177
Grants	10,644	-	10,644
Forfeitures	206,040	-	206,040
Emergency response	72,700	-	72,700
Unrestricted	16,948,855	38,133,939	55,082,794
Total net assets	\$ 70,599,683	\$ 124,995,642	\$ 195,595,325

Charter Township of Shelby

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 8,130,890	\$ 2,210,722	\$ 545,127	\$ 123,137
Public safety	20,825,372	1,494,148	308,380	77,921
Public works	1,461,271	-	-	-
41A District Court	1,834,212	2,779,920	45,724	-
Recreation and culture	3,608,184	1,262,529	32,391	53,885
Interest on long-term debt	74,191	-	-	-
Total governmental activities	35,934,120	7,747,319	931,622	254,943
Business-type activities:				
Water and sewer	17,525,580	17,153,384	-	5,148,718
Shelby Manor Senior Housing	1,223,892	1,583,489	-	-
Total business-type activities	18,749,472	18,736,873	-	5,148,718
Total primary government	<u>\$ 54,683,592</u>	<u>\$ 26,484,192</u>	<u>\$ 931,622</u>	<u>\$ 5,403,661</u>
General revenues:				
Property taxes:				
General				
Police				
Fire				
Police and fire pension				
State-shared revenues				
Interest				
Other				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2005

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (5,251,904)	\$ -	\$ (5,251,904)
(18,944,923)	-	(18,944,923)
(1,461,271)	-	(1,461,271)
991,432	-	991,432
(2,259,379)	-	(2,259,379)
(74,191)	-	(74,191)
(27,000,236)	-	(27,000,236)
-	4,776,522	4,776,522
-	359,597	359,597
-	5,136,119	5,136,119
(27,000,236)	5,136,119	(21,864,117)
2,862,317	-	2,862,317
11,185,256	-	11,185,256
9,955,223	-	9,955,223
2,850,591	-	2,850,591
5,094,584	-	5,094,584
1,353,591	1,370,931	2,724,522
880,787	193,746	1,074,533
331,223	(331,223)	-
34,513,572	1,233,454	35,747,026
7,513,336	6,369,573	13,882,909
63,086,347	118,626,069	181,712,416
\$ 70,599,683	\$ 124,995,642	\$ 195,595,325

Charter Township of Shelby

Governmental Funds Balance Sheet December 31, 2005

	General Fund	Fire Fund	Police Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 2)	\$ 8,214,961	\$ 6,980,101	\$ 7,397,197	\$ 12,027,430	\$ 34,619,689
Receivables:					
Taxes	3,111,021	12,122,672	13,624,286	-	28,857,979
Reserve for uncollected taxes	(43,779)	(175,319)	(129,042)	-	(348,140)
Other	75,343	177,149	-	197,368	449,860
Due from other funds (Note 4)	3,549	-	4,682	205,000	213,231
Due from other governmental units	883,917	-	-	16,554	900,471
Prepaid costs	145,540	133,374	183,786	8,009	470,709
Total assets	\$ 12,390,552	\$ 19,237,977	\$ 21,080,909	\$ 12,454,361	\$ 65,163,799
Liabilities and Fund Balances					
Liabilities					
Vouchers payable	\$ 663,104	\$ 43,564	\$ 79,300	\$ 59,656	\$ 845,624
Accrued and other liabilities	270,027	526,011	210,763	9,259	1,016,060
Due to other funds (Note 4)	9,571	4,244	-	-	13,815
Deferred revenue	3,172,268	11,947,353	13,540,900	18,492	28,679,013
Total liabilities	4,114,970	12,521,172	13,830,963	87,407	30,554,512
Fund Balances					
Reserved for prepaid costs	145,540	133,374	183,786	8,009	470,709
Reserved for public safety expenditures	-	-	-	2,816,709	2,816,709
Unreserved:					
Designated (Note 9), reported in:					
General Fund	6,274,476	-	-	-	6,274,476
Special Revenue Funds	-	194,858	317,989	50,000	562,847
Capital Projects Funds	-	-	-	4,303,757	4,303,757
Undesignated, reported in:					
General Fund	1,855,566	-	-	-	1,855,566
Special Revenue Funds	-	6,388,573	6,748,171	5,188,479	18,325,223
Total fund balances	8,275,582	6,716,805	7,249,946	12,366,954	34,609,287
Total liabilities and fund balances	\$ 12,390,552	\$ 19,237,977	\$ 21,080,909	\$ 12,454,361	\$ 65,163,799

Charter Township of Shelby

Governmental Funds **Reconciliation of Fund Balances to the Statement of Net Assets** **Year Ended December 31, 2005**

Fund Balances - Total Governmental Funds	\$ 34,609,287
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Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	36,405,807
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Revenue related to receivables is recorded in the statement of net assets at the time it is earned without regard to timeliness of collection	881,993
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Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(1,297,404)</u>
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Net Assets of Governmental Activities	<u><u>\$ 70,599,683</u></u>
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Charter Township of Shelby

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2005

	General	Fire	Police	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 2,862,317	\$ 11,266,495	\$ 12,724,575	\$ -	\$ 26,853,387
Licenses and permits	1,798,858	-	-	-	1,798,858
Federal grants	-	95,123	99,109	129,597	323,829
State-shared revenue and grants	5,225,984	-	127,898	84,101	5,437,983
Grants from local units	479,736	-	3,946	-	483,682
Charges for services	758,339	1,119,005	172,672	1,019,778	3,069,794
Fines and forfeitures	2,897,612	-	-	149,092	3,046,704
Interest	742,191	278,924	296,104	36,372	1,353,591
Other revenue	982,244	98,479	566,051	82,402	1,729,176
Interfund administrative charges	394,500	-	-	-	394,500
Total revenue	16,141,781	12,858,026	13,990,355	1,501,342	44,491,504
Expenditures					
Current:					
General government	7,833,499	-	-	135,203	7,968,702
Public safety	25,000	9,383,436	11,778,570	74,876	21,261,882
Public works	862,995	-	-	291,104	1,154,099
Recreation and culture	2,861,756	-	-	571,835	3,433,591
41A District Court	-	-	-	1,916,264	1,916,264
Capital outlay	1,400,203	1,111,679	401,919	1,217,684	4,131,485
Debt service	-	1,230,000	-	-	1,230,000
Total expenditures	12,983,453	11,725,115	12,180,489	4,206,966	41,096,023
Excess of Revenue Over (Under) Expenditures	3,158,328	1,132,911	1,809,866	(2,705,624)	3,395,481
Other Financing Sources (Uses)					
Transfers in (Note 4)	203,785	-	60,668	5,850,553	6,115,006
Transfers out (Note 4)	(3,367,140)	(1,176,817)	(1,126,145)	(113,681)	(5,783,783)
Total other financing sources (uses)	(3,163,355)	(1,176,817)	(1,065,477)	5,736,872	331,223
Net Change in Fund Balances	(5,027)	(43,906)	744,389	3,031,248	3,726,704
Fund Balances - Beginning of year	8,280,609	6,760,711	6,505,557	9,335,706	30,882,583
Fund Balances - End of year	<u>\$ 8,275,582</u>	<u>\$ 6,716,805</u>	<u>\$ 7,249,946</u>	<u>\$ 12,366,954</u>	<u>\$ 34,609,287</u>

Charter Township of Shelby

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 3,726,704
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Capital outlay expenditures	3,991,463
Depreciation expense	(1,642,613)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	(160,051)
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Repayment of bond principal and reduction in net pension obligation is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,464,681
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Accumulated employee sick and vacation pay is recorded when earned in the statement of activities	133,152
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Change in Net Assets of Governmental Activities	<u>\$ 7,513,336</u>
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Charter Township of Shelby

Proprietary Funds Statement of Net Assets December 31, 2005

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Major Fund - Shelby Manor	Total Enterprise Funds
Assets			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 39,795,803	\$ 785,849	\$ 40,581,652
Receivables:			
Customers	4,028,071	-	4,028,071
Special assessments	325,403	-	325,403
Other	25,888	-	25,888
Due from other funds (Note 4)	7,207	-	7,207
Prepaid costs	272,235	2,308	274,543
Inventories	191,968	-	191,968
Total current assets	44,646,575	788,157	45,434,732
Noncurrent assets:			
Restricted assets (Notes 2 and 7)	3,339,810	-	3,339,810
Special assessment receivable - Net of current portion	803,160	-	803,160
Capital assets not being depreciated (Note 3)	4,785,137	1,320,000	6,105,137
Capital assets being depreciated - Net (Note 3)	99,348,645	9,876,622	109,225,267
Total noncurrent assets	108,276,752	11,196,622	119,473,374
Total assets	152,923,327	11,984,779	164,908,106
Liabilities			
Current liabilities:			
Vouchers payable	2,035,215	31,426	2,066,641
Accrued and other liabilities	1,938,489	168,334	2,106,823
Due to other funds (Note 4)	206,623	-	206,623
Current liabilities payable from restricted assets (Note 7)	325,599	-	325,599
Current portion of long-term debt (Note 6)	1,060,257	505,000	1,565,257
Total current liabilities	5,566,183	704,760	6,270,943
Noncurrent liabilities:			
Unearned revenue	1,457,662	-	1,457,662
Long-term debt - Net of current portion (Note 6)	23,968,859	8,215,000	32,183,859
Total noncurrent liabilities	25,426,521	8,215,000	33,641,521
Total liabilities	30,992,704	8,919,760	39,912,464
Net Assets			
Invested in capital assets - Net of related debt	79,594,878	2,476,622	82,071,500
Restricted for:			
Bond covenants (Note 7)	2,361,238	-	2,361,238
Special assessment district (Note 6)	2,428,965	-	2,428,965
Unrestricted	37,545,542	588,397	38,133,939
Total net assets	\$ 121,930,623	\$ 3,065,019	\$ 124,995,642

Charter Township of Shelby

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2005

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Major Fund - Shelby Manor Senior Housing	Total Enterprise Funds
Operating Revenue			
Charges for sales and services	\$ 17,153,384	\$ -	\$ 17,153,384
Rent	-	1,583,489	1,583,489
Other	172,587	21,159	193,746
Total operating revenue	17,325,971	1,604,648	18,930,619
Operating Expenses			
Cost of water and sewage disposal	9,442,412	-	9,442,412
Operation and maintenance	3,301,461	502,235	3,803,696
General and administrative	194,978	23,264	218,242
Depreciation	2,939,985	252,860	3,192,845
Total operating expenses	15,878,836	778,359	16,657,195
Operating Income	1,447,135	826,289	2,273,424
Nonoperating Revenue (Expense)			
Investment income	1,345,420	25,511	1,370,931
Interest expense	(1,646,744)	(445,533)	(2,092,277)
Total nonoperating expense	(301,324)	(420,022)	(721,346)
Income - Before contributions	1,145,811	406,267	1,552,078
Capital Contributions			
Developers	2,665,366	-	2,665,366
Capital charges and front foot assessments	2,483,352	-	2,483,352
Total capital contributions	5,148,718	-	5,148,718
Transfers to Other Funds (Note 4)	(131,223)	(200,000)	(331,223)
Change in Net Assets	6,163,306	206,267	6,369,573
Net Assets - Beginning of year	115,767,317	2,858,752	118,626,069
Net Assets - End of year	<u>\$ 121,930,623</u>	<u>\$ 3,065,019</u>	<u>\$ 124,995,642</u>

Charter Township of Shelby

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2005

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Major Fund - Shelby Manor Senior Housing	Total Enterprise Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 17,359,900	\$ 1,583,489	\$ 18,943,389
Payments to suppliers - Goods and services	(10,028,907)	(517,404)	(10,546,311)
Payments to employees	(2,407,766)	-	(2,407,766)
Other inflows	172,587	21,159	193,746
Net cash provided by operating activities	5,095,814	1,087,244	6,183,058
Cash Flows from Capital and Related Financing Activities			
Collection of special assessments - Principal and interest	577,165	-	577,165
Collection of capital charges and front foot assessments	2,483,352	-	2,483,352
Purchase of capital assets	(4,116,612)	-	(4,116,612)
Principal and interest paid on long-term debt	(2,848,259)	(955,533)	(3,803,792)
Net cash used in capital and related financing activities	(3,904,354)	(955,533)	(4,859,887)
Cash Flows from Noncapital and Related Financing Activities -			
Transfers out	(131,224)	(200,000)	(331,224)
Cash Flows from Investing Activities - Interest received on investments	1,262,569	25,511	1,288,080
Net Increase (Decrease) in Cash and Cash Equivalents	2,322,805	(42,778)	2,280,027
Cash and Cash Equivalents - Beginning of year	40,812,808	828,627	41,641,435
Cash and Cash Equivalents - End of year	<u>\$ 43,135,613</u>	<u>\$ 785,849</u>	<u>\$ 43,921,462</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 39,795,803	\$ 785,849	\$ 40,581,652
Restricted assets (Notes 2 and 7)	3,339,810	-	3,339,810
Total cash and cash equivalents	<u>\$ 43,135,613</u>	<u>\$ 785,849</u>	<u>\$ 43,921,462</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 1,447,135	\$ 826,289	\$ 2,273,424
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	2,939,985	252,860	3,192,845
Changes in assets and liabilities:			
Receivables	245,718	-	245,718
Other assets	11,088	(1,865)	9,223
Accounts payable	(4,520)	7,101	2,581
Accrued and other liabilities	463,329	3,334	466,663
Deferred revenue	(39,203)	-	(39,203)
Due to other funds	32,282	(475)	31,807
Net cash provided by operating activities	<u>\$ 5,095,814</u>	<u>\$ 1,087,244</u>	<u>\$ 6,183,058</u>

Noncash Investing, Capital, and Related financing Activities - During the year ended December 31, 2005, developers constructed water and sewer lines with an estimated value of \$2,700,000 and donated them to the Township's Water and Sewer Fund. Also, the Water and Sewer Fund recorded long-term debt and capital assets of approximately \$6,000,000 related to an intergovernmental cost-sharing agreement for the construction of an interceptor and wastewater disposal services.

Charter Township of Shelby

Fiduciary Funds Statement of Fiduciary Net Assets December 31, 2005

	Police and Fire Retirement System	
	Trust Fund	Agency Funds
Assets		
Cash and cash equivalents (Note 2)	\$ 3,086,797	\$ 7,454,495
Investments (Note 2):		
Corporate bonds and notes	3,458,012	-
U.S. government securities	648,815	-
Common and preferred stock	6,345,251	-
Mutual funds	24,561,914	-
Receivables - Other	117,201	6,226
Deposits	-	349,884
	<hr/>	<hr/>
Total assets	38,217,990	<u><u>\$ 7,810,605</u></u>
Liabilities		
Vouchers payable	-	\$ 129,805
Advance tax collections	-	5,926,775
Deposits	-	1,754,025
	<hr/>	<hr/>
Total liabilities	-	<u><u>\$ 7,810,605</u></u>
Net Assets - Held in trust for pension systems	<u><u>\$ 38,217,990</u></u>	

Charter Township of Shelby

Fiduciary Funds **Statement of Changes in Fiduciary Net Assets** **Year Ended December 31, 2005**

	Police and Fire Retirement System Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 829,955
Net realized and unrealized gain on investments	95,743
Less investment expense	<u>(34,961)</u>
Net investment income	890,737
Contributions:	
Employer	3,052,750
Employee	<u>496,379</u>
Total contributions	<u>3,549,129</u>
Total additions	4,439,866
Deductions	
Benefit payments	3,407,678
Administrative expenses	<u>33,639</u>
Total deductions	<u>3,441,317</u>
Net Increase	998,549
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>37,219,441</u>
End of year	<u><u>\$ 38,217,990</u></u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Shelby (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Shelby:

Reporting Entity

The Charter Township of Shelby was organized on November 20, 1978 under the provisions of Act 359 of P.A. 1947, as amended (Charter Township Act). The Township is governed by an elected seven-member board of trustees composed of the supervisor, clerk, treasurer, and four other trustees. The Township provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, culture, recreation, public improvements, planning and zoning, and general administrative services.

Blended Component Units - The following component units are reported as if they were parts of the primary government in the financial statements:

- a. The Police and Fire Retirement System (the "System") has been blended into the Township's financial statements. The System is governed by a five-member pension board appointed by the board of trustees and includes one member of the Township's board. The System is reported as if it were part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of the retirement system.
- b. The Shelby Township Building Authority is governed by a five-member board that is appointed by the Township's board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to provide certain facilities necessary for the operation of the Township's government and to finance and construct the Township's public buildings.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: property taxes, state-shared revenue, and interest associated with the current fiscal period. All other revenue items are considered to be available only when cash is received by the Township. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

- The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Fire Special Revenue Fund accounts for all of the activities of the Township's fire department, except for the purchase of equipment.
- The Police Special Revenue Fund accounts for all of the activities of the Township's police department, except for the purchase of equipment.

The Township reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.
- The Shelby Manor Senior Housing Fund accounts for the activities of the Township's senior housing apartment complex.

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the Township reports the following fiduciary funds:

Police and Fire Retirement System Trust Fund - The Police and Fire Retirement System Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified employees and for medical benefits provided to employees during retirement.

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, and other governments.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activity.

As a general rule, the effect of interfund activity and the General Fund reimbursement for administrative expenses have been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes become a lien and are billed on December 1 of the following year. These taxes are due on February 28 with the final collection date of March 1 before they are added to the county tax rolls. Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue in each respective fund at December 31.

The 2004 taxable valuation of the Township totaled \$2,835,953,702, on which ad valorem taxes levied consisted of 1.0000 mills for the Township's operating purposes, 3.9209 mills for police protection, 3.4895 mills for fire operating purposes, and 1.0000 mills for police and fire pension. The ad valorem taxes raised \$2,833,600 for general operations, \$11,110,072 for police protection, \$9,888,098 for fire operations, and \$2,850,591 for police and fire pension. These amounts are recorded in their respective funds as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less as of December 31, 2005. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The revenue bonds of the Enterprise Fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. Also, the Township has restricted assets for unspent bond proceeds.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20-35 years
Water systems	50 years
Sewer systems	50 years
Buildings and improvements	20-50 years
Machinery and equipment	5-20 years
Vehicles	8 years
Furniture and fixtures	5-20 years
Library books	8 years

Compensated Absences - The Township allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Construction Code Act - The Township tracks the results of building department operation in the General Fund in accordance with Michigan Public Act 245 of 1999. The Township is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provision of the Act, the Township adopted this accounting treatment effective January 1, 2000. A summary of the activity since January 1, 2000 is as follows:

Cumulative expenditures over revenue - January 1, 2005		\$ (422,875)
2005 building department activity:		
Permit revenue	\$ 1,792,624	
Expenditures	<u>(1,720,160)</u>	
Excess of revenue over expenditures		<u>72,464</u>
Cumulative expenditures over revenue - December 31, 2005		<u><u>\$ (350,411)</u></u>

Note 2 - Cash and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Township has designated 20 banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments allowed by State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$30,323,558 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 2 - Cash and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities to less than one year, except for commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Non-2a7 like bank investment pool	\$ 3,279,119	240 days
Agency bonds	12,722,972	118 days
Commercial paper	11,992,526	40 days
U.S. Treasury securities	4,123,161	87 days
Agency bonds (Pension Trust)	264,825	10.59 years
Fixed income mutual fund (Pension Trust)	1,980,694	4.5 years
Corporate bond (Pension Trust)	3,458,012	2.62 years

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 14,963,079	AAA	S&P
	7,483,979	Not Rated	N/A
Mutual fund	1,980,694	Not Rated	S&P
Commercial paper	11,992,526	AI	S&P
Agency bonds	3,570,911	AI	S&P
	9,152,061	AAA	S&P
Agency bonds (Pension Trust)	264,825	AAA	S&P

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 2 - Cash and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
Corporate bonds (Pension Trust)	\$ 926,165	A	S&P
	771,363	A+	S&P
	80,508	A2	S&P
	156,104	AA-	S&P
	100,628	AAA	S&P
	488,298	BB	S&P
	556,075	BB-	S&P
	100,035	BBB	S&P
	278,952	BBB+	S&P

Concentration of Credit Risk - The Township limits the amount the Township may invest in any one issuer to 50 percent of the Township's total portfolio. At December 31, 2005, there were no investments in a single issuer in excess of 50 percent of the Township's total portfolio.

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 3 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Governmental Activities				
Capital assets not being depreciated - Land	\$ 11,128,458	\$ -	\$ -	\$ 11,128,458
Capital assets being depreciated:				
Infrastructure	12,031,150	2,081,537	-	14,112,687
Buildings and improvements	14,083,871	832,512	(10,972)	14,905,411
Vehicles	4,980,377	720,544	(570,026)	5,130,895
Library books	2,000,000	-	-	2,000,000
Machinery and equipment	4,475,973	496,892	(38,163)	4,934,702
Subtotal	37,571,371	4,131,485	(619,161)	41,083,695
Accumulated depreciation:				
Infrastructure	3,056,440	364,151	-	3,420,591
Buildings and improvements	4,776,452	470,850	(12,477)	5,234,825
Vehicles	3,364,757	459,931	(457,523)	3,367,165
Library books	1,000,000	-	-	1,000,000
Machinery and equipment	2,445,223	347,681	(9,139)	2,783,765
Subtotal	14,642,872	1,642,613	(479,139)	15,806,346
Net capital assets being depreciated	22,928,499	2,488,872	(140,022)	25,277,349
Net capital assets	\$ 34,056,957	\$ 2,488,872	\$ (140,022)	\$ 36,405,807

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 3 - Capital Assets (Continued)

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 1,525,441	\$ -	\$ -	\$ 1,525,441
Construction in progress	3,056,493	9,809,159	(8,285,956)	4,579,696
Subtotal	4,581,934	9,809,159	(8,285,956)	6,105,137
Capital assets being depreciated:				
Buildings and improvements	17,166,500	-	-	17,166,500
Vehicles	589,822	55,757	(47,839)	597,740
Furniture and fixtures	645,762	-	-	645,762
Water systems	34,505,237	1,870,397	-	36,375,634
Sewer systems	72,894,727	9,347,540	-	82,242,267
Subtotal	125,802,048	11,273,694	(47,839)	137,027,903
Accumulated depreciation:				
Buildings and improvements	3,176,165	334,918	-	3,511,083
Vehicles	526,022	40,424	(47,839)	518,607
Furniture and fixtures	460,968	22,739	-	483,707
Water systems	7,326,481	834,419	-	8,160,900
Sewer systems	13,167,994	1,960,345	-	15,128,339
Subtotal	24,657,630	3,192,845	(47,839)	27,802,636
Net capital assets being depreciated	101,144,418	8,080,849	-	109,225,267
Net capital assets	<u>\$ 105,726,352</u>	<u>\$ 17,890,008</u>	<u>\$ (8,285,956)</u>	<u>\$ 115,330,404</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 384,559
Public safety	570,483
Public works	407,172
Recreation and culture	278,400
41A District Court	1,999
Total governmental activities	<u>\$ 1,642,613</u>
Business-type activities:	
Water and sewer	\$ 2,939,985
Shelby Manor	252,860
Total business-type activities	<u>\$ 3,192,845</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 3 - Capital Assets (Continued)

During 2005, the Township reduced its estimate of the useful lives of certain infrastructure assets. This change had the effect of decreasing the change in net assets of the Water and Sewer Fund and the business-type activities for 2005 by approximately \$600,000.

Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Fire Special Revenue Fund	\$ 3,549
Police Special Revenue Fund	Fire Special Revenue Fund	595
	General Fund	2,464
	Water and Sewer Fund	<u>1,623</u>
	Total Police Special Revenue Fund	4,682
Water and Sewer Fund	General Fund	7,107
	Fire Special Revenue Fund	<u>100</u>
	Total Water and Sewer Fund	7,207
Nonmajor governmental fund	Water and Sewer Fund	<u>205,000</u>
	Total	<u><u>\$ 220,438</u></u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 4 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund balances represent routine and temporary cash flow assistance until amounts are transferred from investment accounts.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor governmental funds	\$ 3,306,472
	Police Fund	<u>60,668</u>
	Total General Fund	3,367,140
Fire Fund	Nonmajor governmental funds	1,176,817
Police Fund	Nonmajor governmental funds	1,126,145
Nonmajor governmental funds	General Fund	1,562
	Nonmajor governmental funds	<u>112,119</u>
	Total nonmajor governmental funds	113,681
Shelby Manor Senior Housing Fund	General Fund	200,000
Water and Sewer Fund	General Fund	2,223
	Nonmajor governmental funds	<u>129,001</u>
	Total Water and Sewer Fund	<u>131,224</u>
	Total	<u>\$ 6,115,007</u>

Transfers provided funding for capital projects, capital acquisitions, postemployment benefits, and debt services.

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 5 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue of the governmental funds are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant amounts received after period of availability	\$ 34,111	\$ -
Property taxes	<u>-</u>	<u>28,644,902</u>
Total	<u>\$ 34,111</u>	<u>\$ 28,644,902</u>

Note 6 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties that benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. At December 31, 2005, the Township has \$2,428,965 set aside in the Water and Sewer Fund for repayment of these bonds. In addition, \$1,128,563 of special assessments are receivable in the future; the amount of receivables delinquent at December 31, 2005 is not significant.

During 2005, the Township defeased certain Building Authority bonds by placing surplus cash in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At December 31, 2005, \$1,120,000 of Building Authority bonds outstanding are considered defeased.

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
1998 Building Authority Bonds:*						
Amount of issue - \$1,515,000	4.35% -	\$110,000 -				
Maturing through 2012	5.10%	\$195,000	\$ 1,230,000	\$ (1,230,000)	\$ -	\$ -
Installment purchase agreements:						
Energy Conservation Note Payable:						
Amount of issue - \$1,385,000	5.32%	\$162,401 -				
Maturing through 2006		\$180,382	351,538	(171,156)	180,382	180,382
Total bond obligations			1,581,538	(1,401,156)	180,382	180,382
Other long-term obligations:						
Compensated absences			926,005	(133,152)	792,853	102,406
Net pension obligations			387,694	(63,525)	324,169	-
Total governmental activities			<u>\$ 2,895,237</u>	<u>\$ (1,597,833)</u>	<u>\$ 1,297,404</u>	<u>\$ 282,788</u>

* The 1998 Building Authority Bond was partially refunded in 2003.

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type Activities						
General obligation bonds:						
1998 W&S Limited Tax Bonds:						
Amount of issue - \$580,000	4.30% -	\$75,000				
Maturing through 2008	4.40%		\$ 300,000	\$ (75,000)	\$ 225,000	\$ 75,000
1998 B.A. Refunding Bonds:						
Amount of issue - \$11,000,000	4.45% -	\$460,000 -				
Maturing through 2017	5.00%	\$855,000	9,230,000	(510,000)	8,720,000	505,000
1999 B.A. Serial Bonds:						
Amount of issue - \$4,235,000	4.45% -	\$100,000 -				
Maturing through 2013	5.50%	\$300,000	3,925,000	(100,000)	3,825,000	100,000
Special assessment bonds:						
2001 Special Assessment Bonds:						
Amount of issue - \$2,095,000	3.90% -	\$95,000 -				
Maturing through 2008	5.50%	\$225,000	1,400,000	(225,000)	1,175,000	225,000
1998 Special Assessment Bonds:						
Amount of issue - \$2,580,000	4.30% -	\$275,000 -				
Maturing through 2008	4.40%	\$300,000	1,150,000	(275,000)	875,000	275,000
Revenue bonds:						
1999 Revenue Bonds:						
Amount of issue - \$4,555,000	3.95% -	\$310,000				
Maturing through 2013	4.40%	\$460,000	3,280,000	(320,000)	2,960,000	315,000
2002 Revenue Bonds:						
Amount of issue - \$2,500,000	3.00% -	\$50,000				
Maturing through 2022	4.80%	\$250,000	2,450,000	(50,000)	2,400,000	50,000
2003 Refunding Bonds:						
Amount of issue - \$8,000,000	2.250% -	\$200,000 -				
Maturing through 2022	4.20%	\$700,000	7,900,000	(100,000)	7,800,000	200,000
Total bond obligations			29,635,000	(1,655,000)	27,980,000	1,745,000
Other long-term obligations:						
1999 Garfield Interceptor Debt						
Amount of issue - \$5,520,000	7.37%	\$29,000 -				
Maturing through 2031		\$472,000	-	5,931,697	5,931,697	92,000
Compensated absences			93,212	26,707	119,919	10,757
Total other long-term obligations			93,212	5,958,404	6,051,616	102,757
Total business-type activities			\$ 29,728,212	\$ 4,303,404	\$ 34,031,616	\$ 1,847,757

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 180,382	\$ 7,229	\$ 187,611	\$ 1,837,000	\$ 1,657,655	\$ 3,494,655
2007	-	-	-	1,928,779	1,576,580	3,505,359
2008	-	-	-	1,956,058	1,491,530	3,447,588
2009	-	-	-	1,768,873	1,404,901	3,173,774
2010	-	-	-	1,997,265	1,327,790	3,325,055
2011-2015	-	-	-	9,715,505	5,282,031	14,997,536
2016-2020	-	-	-	8,055,172	3,080,276	11,135,448
2021-2025	-	-	-	4,648,444	1,340,966	5,989,410
2026-2030	-	-	-	1,975,828	436,069	2,411,897
2031-2035	-	-	-	28,773	2,120	30,893
Total	<u>\$ 180,382</u>	<u>\$ 7,229</u>	<u>\$ 187,611</u>	<u>\$ 33,911,697</u>	<u>\$ 17,599,918</u>	<u>\$ 51,511,615</u>

Note 7 - Restricted Assets

Restricted assets at December 31, 2005 consist of cash and cash equivalents (including bank investment pools) and are reserved in accordance with revenue bond ordinance requirements. Following is the detail of restricted assets at December 31, 2005:

Revenue bond requirements:	
Operations and maintenance	\$ 1,078,238
Bond reserve	1,283,000
Debt service:	
Principal	282,500
Interest	43,099
Total requirements	2,686,837
Unspent bond proceeds	652,973
Restricted assets	<u>\$ 3,339,810</u>
Assets restricted for revenue bond requirements	\$ 2,686,837
Current liabilities payable from restricted assets	<u>(325,599)</u>
Net assets restricted for revenue bond ordinances	<u>\$ 2,361,238</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Designated Fund Balances

Fund balances have been designated for the following purposes:

	Major Funds			Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds
	General Fund	Fire Fund	Police Fund		
Capital improvements	\$ 3,000,000	\$ -	\$ -	\$ -	\$ 4,303,757
Capital outlay	-	194,858	317,989	50,000	-
Roads, bridges, and sidewalk improvements	2,996,911	-	-	-	-
Beautification committee	34,721	-	-	-	-
Nature center	205,634	-	-	-	-
EAC	100	-	-	-	-
Heritage garden	37,110	-	-	-	-
Total	<u>\$ 6,274,476</u>	<u>\$ 194,858</u>	<u>\$ 317,989</u>	<u>\$ 50,000</u>	<u>\$ 4,303,757</u>

Note 10 - Postemployment Benefits

The Township provides health care benefits and life insurance benefits to all general and court employees who retire at age 55 with 10 years of service, and to all police and fire employees retiring after 25 years of service, in accordance with labor contracts. The benefits provided cover the retired employee, as well as their spouse and any eligible dependents, and are paid in full by the Township until age 65. At age 65, the employee and spouse must apply for Medicare and the Township then supplies a complementary coverage policy to equal their prior benefits. Currently, 115 retirees are eligible. Expenditures for postemployment benefits are recognized as the insurance premiums become due; during the year, this amounted to \$1,398,890.

Note 10 - Postemployment Benefits (Continued)

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Note 11 - Retirement Plans

Defined Benefit Pension Plan

Plan Description

The Township contributes to the Shelby Township Police and Fire Retirement Plan, which is the administrator of a single-employer public employees' retirement plan that covers all police and fire employees of the Township. The plan provides retirement, disability, and death benefits to system members and their beneficiaries. At December 31, 2004, the date of the most recent actuarial valuation, membership consisted of 82 retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 122 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the system are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the system. Please refer to Note 1 for further significant accounting policies.

Plan members are required to contribute 5 percent of their annual covered salary. The Charter Township of Shelby is required to contribute at an actuarially determined rate. The obligation to contribute to and maintain the plan for these employees was established by Act No. 345 of the Public Acts of 1937, as amended, and modified by the collective bargaining agreements. Administrative costs of the plan are financed through investment earnings.

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 11 - Retirement Plans (Continued)

Annual Pension Cost and Net Pension Obligation

The plan's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	\$ 2,977,121
Interest on net pension obligation	31,016
Adjustment to annual required contribution	<u>(18,912)</u>
Annual pension cost	2,989,225
Contributions made	<u>3,052,750</u>
Decrease in net pension obligation	(63,525)
Net pension obligation - Beginning of year	<u>387,694</u>
Net pension obligation - End of year	<u><u>\$ 324,169</u></u>

The annual required contribution for the current year was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, (b) projected salary increases of 5.5 percent to 8.5 percent per year compounded annually (both (a) and (b) include an inflation component of 5.5 percent), (c) additional projected salary increases of 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 17 years.

Three-year Trend Information of Annual Pension Cost

	2005	2004	2003
Annual pension cost (APC)	\$ 2,989,225	\$ 2,676,728	\$ 2,147,759
Percentage of APC contributed	102.1%	122.0%	181.6%
Net pension obligation	\$ 324,169	\$ 387,694	\$ 976,091

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 11 - Retirement Plans (Continued)

Reserves

State law requires employee contributions to be segregated and interest to be added annually. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. The reserve for the Police and Fire Retirement Plan consists of the following:

	Reserved for Employee Contributions	Reserved for Employer Contributions	Reserved for Retiree Benefit Payments	Total
Balance - January 1, 2005	\$ 3,957,908	\$ (3,378,760)	\$ 36,640,293	\$ 37,219,441
Additions - Including interest	570,827	1,083,787	2,820,214	4,474,828
Transfers	(235,535)	(80,680)	316,215	-
Deductions	<u>-</u>	<u>(68,601)</u>	<u>(3,407,678)</u>	<u>(3,476,279)</u>
Balance - December 31, 2005	<u>\$ 4,293,200</u>	<u>\$ (2,444,254)</u>	<u>\$ 36,369,044</u>	<u>\$ 38,217,990</u>

Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees, except those employees covered by the Police and Fire Retirement System, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. Under the terms of the agreement, the Township and the employees contribute 10 percent and 5 percent, respectively, of the employees' base salaries each month, and employees may elect to contribute additional voluntary amounts. The Township's contributions for each employee (plus interest allocated to the employee's account) are fully vested after 20 months of continuous service.

The Township's total payroll during December 31, 2005 was \$19,634,665. The current year contribution was calculated based on covered payroll of \$8,935,910, resulting in an employer contribution of approximately \$801,000 and employee contributions of approximately \$400,000.

Charter Township of Shelby

Notes to Financial Statements December 31, 2005

Note 12 - Future Minimum Lease Revenue

The Township leases a portion of its land to a private operator through the year 2044 for use as a golf course. During 2005, the Township recognized \$125,000 in revenue related to this lease.

Future annual minimum lease payments are as follows:

Years	Greater of	
	Percent of Gross Revenue	Minimum Rent
2005-2009	3	\$ 125,000
2010-2014	4	175,000
2015-2019	4	200,000
2020-2024	4	225,000
2025-2034	5	250,000
2035-2044	7	300,000

Required Supplemental Information

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual
Fund Balance - Beginning of year	\$ 8,280,609	\$ 8,280,609	\$ 8,280,609
Revenue			
Taxes	2,863,842	2,858,043	2,862,317
Licenses and permits	1,768,840	1,890,000	1,798,858
State distributions and grants	5,103,819	5,031,763	5,225,984
Grants from local units	410,030	460,030	479,736
Charges for services	644,187	732,598	758,339
Fines and forfeitures	2,396,700	2,969,000	2,897,612
Interest earned	275,000	310,000	742,191
Other revenue	688,019	933,448	982,244
Interfund administrative charges	394,500	394,500	394,500
Total revenue	14,544,937	15,579,382	16,141,781
Expenditures			
General government	8,105,103	8,252,549	7,833,499
Public safety	24,000	25,000	25,000
Public works	669,500	1,026,500	862,995
Recreation and culture	2,997,705	2,979,591	2,861,756
Capital outlay	1,903,669	1,730,669	1,400,203
Total expenditures	13,699,977	14,014,309	12,983,453
Other Financing Sources (Uses)			
Transfers in	207,000	203,786	203,785
Transfers out	(3,174,524)	(3,361,083)	(3,367,140)
Total other financing sources (uses)	(2,967,524)	(3,157,297)	(3,163,355)
Fund Balance - End of year	\$ 6,158,045	\$ 6,688,385	\$ 8,275,582

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended December 31, 2005

<u>Fire Fund</u>	Original Budget	Amended Budget	Actual
Fund Balance - Beginning of year	\$ 6,760,711	\$ 6,760,711	\$ 6,760,711
Revenue			
Taxes	9,932,471	9,932,471	9,955,223
Charges for services	1,076,750	1,076,750	1,119,005
Federal grant	35,386	35,386	95,123
Interest earned	280,000	280,000	278,924
Other revenue	78,813	78,813	98,479
Total revenue	11,403,420	11,403,420	11,546,754
Expenditures			
Public safety	8,316,461	8,316,461	8,072,164
Capital outlay	1,856,640	1,856,640	1,111,679
Debt service	1,282,875	1,282,875	1,230,000
Total expenditures	11,455,976	11,455,976	10,413,843
Other Financing Uses - Transfers out	(466,700)	(466,700)	(1,176,817)
Fund Balance - End of year	<u>\$ 6,241,455</u>	<u>\$ 6,241,455</u>	<u>\$ 6,716,805</u>

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended December 31, 2005

<u>Police Fund</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Fund Balance - Beginning of year	\$ 6,505,557	\$ 6,505,557	\$ 6,505,557
Revenue			
Taxes	11,159,796	11,159,796	11,185,256
Federal grants	117,538	117,538	99,109
State distributions and grants	127,877	127,877	127,898
Grants from local units	12,000	12,000	3,946
Charges for services	223,944	223,944	172,672
Interest earned	300,000	300,000	296,104
Other revenue	552,900	552,900	566,051
Total revenue	12,494,055	12,494,055	12,451,036
Expenditures			
Public safety	11,230,188	11,230,188	10,239,251
Capital outlay	788,300	788,300	401,919
Total expenditures	12,018,488	12,018,488	10,641,170
Other Financing Sources (Uses)			
Transfers in	-	-	60,668
Transfers out	(573,000)	(573,000)	(1,126,145)
Total other financing sources (uses)	(573,000)	(573,000)	(1,065,477)
Fund Balance - End of year	<u>\$ 6,408,124</u>	<u>\$ 6,408,124</u>	<u>\$ 7,249,946</u>

Charter Township of Shelby

Required Supplemental Information Pension System Schedule of Funding Progress December 31, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
1999	\$ 28,439,989	\$ 44,407,585	\$ 15,967,596	64.0	\$ 6,543,458	244.0
2000	31,254,924	49,243,464	17,988,540	63.5	6,329,581	284.2
2001	32,848,767	52,326,180	19,477,413	62.8	7,073,837	275.3
2002	32,709,306	54,033,626	21,324,320	60.5	7,504,500	284.2
2003	34,355,443	57,430,250	23,074,807	59.8	8,413,972	274.2
2004	36,115,074	59,537,567	23,422,493	60.7	8,741,884	267.9

The schedule of employer contributions is as follows:

Year Ended December 31	Actuarial Valuation Date - December 31	Annual Required Contribution	Percentage Contributed
2001	1999	\$ 1,626,468	136.8
2002	2000	1,836,096	133.2
2003	2001	2,057,358	189.5
2004	2002	2,645,299	123.4
2005	2003	2,977,121	103.8
2006	2004	(a)	(a)

(a) Information not available

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2003, the latest actuarial valuation date, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	18 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	5.50%-8.50%
*Includes inflation at	5.50%
Cost of living adjustments	None

Charter Township of Shelby

Note to Required Supplemental Information December 31, 2005

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that the property tax levy for the police and fire pension and the contribution of that amount to the Police and Fire Retirement System Trust Fund are not budgeted for in the Police and Fire Funds.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level. The budgetary comparison schedules are presented on the same basis of accounting used in preparing the adopted budget. A reconciliation of the budgetary comparison schedules to the operating statement (governmental funds statement of revenue, expenditures, and changes in fund balance) is as follows:

	Fire Fund		Police Fund	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 12,858,026	\$ 11,725,115	\$ 13,990,355	\$ 12,180,489
Pension millage not budgeted	(1,311,272)	-	(1,539,319)	-
Pension contribution not budgeted	-	(1,311,272)	-	(1,539,319)
Amounts per budgetary comparison schedule	<u>\$ 11,546,754</u>	<u>\$ 10,413,843</u>	<u>\$ 12,451,036</u>	<u>\$ 10,641,170</u>

Encumbrances are not included as expenditures. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The amount of encumbrances outstanding at December 31, 2005 has not been calculated. The budget was amended in a legally permissible manner except for five insignificant budget amendments made subsequent to year end. All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Charter Township of Shelby incurred no expenditures that were in excess of the amounts budgeted.

Other Supplemental Information

Charter Township of Shelby

Nonmajor Special

	Emergency Response	Street Lighting	Building Authority	41st District Court	Cable Television	Michigan Justice Training Grant
Assets						
Cash and investments	\$ 73,239	\$ 189,717	\$ 14,114	\$ -	\$ 749,297	\$ 10,969
Receivables - Other	-	18,492	-	-	178,876	-
Due from other funds	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-
Prepaid costs	-	-	25	-	7,984	-
Total assets	<u>\$ 73,239</u>	<u>\$ 208,209</u>	<u>\$ 14,139</u>	<u>\$ -</u>	<u>\$ 936,157</u>	<u>\$ 10,969</u>
Liabilities and Fund Balances						
Liabilities						
Vouchers payable	\$ 539	\$ 17,535	\$ -	\$ -	\$ 4,815	\$ 325
Accrued and other liabilities	-	5	-	-	9,254	-
Deferred revenue	-	18,492	-	-	-	-
Total liabilities	539	36,032	-	-	14,069	325
Fund Balances						
Reserved for prepaid costs	-	-	25	-	7,984	-
Reserved for public safety expenditures	-	-	-	-	-	-
Unreserved:						
Designated	-	-	-	-	50,000	-
Undesignated	72,700	172,177	14,114	-	864,104	10,644
Total fund balances	72,700	172,177	14,139	-	922,088	10,644
Total liabilities and fund balances	<u>\$ 73,239</u>	<u>\$ 208,209</u>	<u>\$ 14,139</u>	<u>\$ -</u>	<u>\$ 936,157</u>	<u>\$ 10,969</u>

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2005

Revenue Funds				Nonmajor Debt Service Fund	Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
Community Block Grant	Federal Forfeiture	Drug Forfeiture	Postemployment Benefits	Fire Stations	Public Improvement	Equipment Replacement	
\$ -	\$ 6,662	\$ 199,378	\$ 3,643,700	\$ -	\$ 903,524	\$ 6,236,830	\$ 12,027,430
-	-	-	-	-	-	-	197,368
-	-	-	205,000	-	-	-	205,000
16,554	-	-	-	-	-	-	16,554
-	-	-	-	-	-	-	8,009
<u>\$ 16,554</u>	<u>\$ 6,662</u>	<u>\$ 199,378</u>	<u>\$ 3,848,700</u>	<u>\$ -</u>	<u>\$ 903,524</u>	<u>\$ 6,236,830</u>	<u>\$ 12,454,361</u>
\$ 16,554	\$ -	\$ -	\$ -	\$ -	\$ 500	\$ 19,388	\$ 59,656
-	-	-	-	-	-	-	9,259
-	-	-	-	-	-	-	18,492
16,554	-	-	-	-	500	19,388	87,407
-	-	-	-	-	-	-	8,009
-	-	-	-	-	-	2,816,709	2,816,709
-	-	-	-	-	903,024	3,400,733	4,353,757
-	6,662	199,378	3,848,700	-	-	-	5,188,479
-	6,662	199,378	3,848,700	-	903,024	6,217,442	12,366,954
<u>\$ 16,554</u>	<u>\$ 6,662</u>	<u>\$ 199,378</u>	<u>\$ 3,848,700</u>	<u>\$ -</u>	<u>\$ 903,524</u>	<u>\$ 6,236,830</u>	<u>\$ 12,454,361</u>

Charter Township of Shelby

Nonmajor Special

	Emergency Response	Street Lighting	Building Authority	41st District Court	Cable Television	Michigan Justice Training Grant
Revenue						
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State distributions and grants	69,941	-	-	-	-	14,160
Charges for services	-	315,024	-	-	704,754	-
Fines and forfeitures	-	-	-	-	-	-
Interest	2,139	9,757	367	-	20,501	-
Other	-	2	-	-	-	-
Total revenue	72,080	324,783	367	-	725,255	14,160
Expenditures						
Current:						
General government	-	-	725	-	-	-
Public safety	36,752	-	-	-	-	12,241
Public works	-	291,104	-	-	-	-
Recreation and culture	-	-	-	-	560,812	-
41A District Court	-	-	-	1,916,264	-	-
Capital outlay	36,962	-	-	-	32,316	-
Total expenditures	73,714	291,104	725	1,916,264	593,128	12,241
Excess of Revenue Over (Under)						
Expenditures	(1,634)	33,679	(358)	(1,916,264)	132,127	1,919
Other Financing Sources (Uses)						
Transfers in	-	-	-	2,008,383	-	-
Transfers out	-	(1,562)	-	(92,119)	(20,000)	-
Total other financing sources (uses)	-	(1,562)	-	1,916,264	(20,000)	-
Net Change in Fund Balances	(1,634)	32,117	(358)	-	112,127	1,919
Fund Balances - Beginning of year	74,334	140,060	14,497	-	809,961	8,725
Fund Balances - End of year	\$ 72,700	\$ 172,177	\$ 14,139	\$ -	\$ 922,088	\$ 10,644

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2005

Revenue Funds				Nonmajor Capital Projects Funds		
Community Block Grant	Federal Forfeiture	Drug Forfeiture	Post- employment Benefits	Public Improvement	Equipment Replacement	Total Nonmajor Governmental Funds
\$ 129,597	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 129,597
-	-	-	-	-	-	84,101
-	-	-	-	-	-	1,019,778
-	-	149,092	-	-	-	149,092
-	171	3,437	-	-	-	36,372
-	-	-	-	19,660	62,740	82,402
129,597	171	152,529	-	19,660	62,740	1,501,342
20,459	-	-	-	23,899	90,120	135,203
-	-	25,883	-	-	-	74,876
-	-	-	-	-	-	291,104
11,023	-	-	-	-	-	571,835
-	-	-	-	-	-	1,916,264
98,115	-	20,868	-	-	1,029,423	1,217,684
129,597	-	46,751	-	23,899	1,119,543	4,206,966
-	171	105,778	-	(4,239)	(1,056,803)	(2,705,624)
-	-	-	1,454,700	107,000	2,280,470	5,850,553
-	-	-	-	-	-	(113,681)
-	-	-	1,454,700	107,000	2,280,470	5,736,872
-	171	105,778	1,454,700	102,761	1,223,667	3,031,248
-	6,491	93,600	2,394,000	800,263	4,993,775	9,335,706
\$ -	\$ 6,662	\$ 199,378	\$ 3,848,700	\$ 903,024	\$ 6,217,442	\$ 12,366,954

Charter Township of Shelby

Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds December 31, 2005

	Agency Funds						Total
	Trust and Agency	Treasurer's Agency	Current Tax Collection	41st District Court	Accounts Payable Imprest	Payroll Imprest	
Assets							
Cash and investments	\$ 124,867	\$ 1,068,402	\$ 5,926,775	\$ 241,402	\$ 39,889	\$ 53,160	\$ 7,454,495
Due from other funds	1,429,026	68,829	-	28,724	-	-	1,526,579
Due from other governmental units	-	-	-	-	-	6,226	6,226
Deposits	1,978	320,519	-	27,387	-	-	349,884
Total assets	<u>\$ 1,555,871</u>	<u>\$ 1,457,750</u>	<u>\$ 5,926,775</u>	<u>\$ 297,513</u>	<u>\$ 39,889</u>	<u>\$ 59,386</u>	<u>\$ 9,337,184</u>
Liabilities							
Vouchers payable	\$ 5,200	\$ -	\$ -	\$ 94,159	\$ -	\$ 30,446	\$ 129,805
Due to other funds	-	1,457,750	-	-	39,889	28,940	1,526,579
Advance tax collections	-	-	5,926,775	-	-	-	5,926,775
Deposits	1,550,671	-	-	203,354	-	-	1,754,025
Total liabilities	<u>\$ 1,555,871</u>	<u>\$ 1,457,750</u>	<u>\$ 5,926,775</u>	<u>\$ 297,513</u>	<u>\$ 39,889</u>	<u>\$ 59,386</u>	<u>\$ 9,337,184</u>

May 12, 2006

Board of Trustees
Charter Township of Shelby
52700 Van Dyke Avenue
Shelby Township, MI 48316

Dear Board Members:

We have recently completed our audit of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby for the year ended December 31, 2005. We offer the following items for your consideration as the policy making body of the Township.

Financial Condition and Future Funding

General Fund expenditures were essentially equal to General Fund revenue for the year ended December 31, 2005. These expenditures include approximately \$1.4 million dollars spent on long term asset purchases. Fund balance in the General Fund totaled approximately \$8.3 million with \$6.3 million designated primarily for capital outlay, roads, bridges and sidewalk improvements, approximately \$150,000 reserved for prepaid costs, and approximately \$1.9 million that is unreserved and undesignated.

As you are aware, the continuing budgetary challenges faced by the State impact the Township through its revenue sharing payments, which is the largest revenue source for the General Fund by itself and the second largest revenue source for the governmental activities as a whole. While the drastic declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes to the state's revenue structure. At this time, revenue sharing payments for fiscal year 2006 are anticipated to be just slightly below the 2005 levels (99.3622% of 2005 levels), and the 2007 projected budget is level with 2006.

It is important to recognize that the authority for the statutory portion of revenue sharing terminates at September 30, 2007. This portion represents approximately \$720,000 of the \$5,169,000 distribution received in fiscal year 2005. We have not heard any significant discussion in Lansing regarding the plans for renewal at that time, but it would be appropriate to discuss with your state representative the importance of the revenue sharing program.

In the coming years, the Township is likely to face continued financial challenges if the State's economic situation does not improve. The Township continues to place emphasis on maintaining a sufficient level of fund balance to withstand unanticipated financial changes. An adequate level of fund balance positions the Township to address negative financial trends without disrupting the level of services provided to citizens or the Township's ability to fund future obligations.

Retiree Healthcare Benefits

As you are aware, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid.

The promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the reporting for pension plans, GASB 45 now requires the Township to obtain a biennial actuarial valuation of the total obligation to provide retiree health care benefits to current employees as well as those already retired. In addition, the Township's funding status, meaning the progress it has made in accumulating assets to pay for this liability, will be disclosed in the financial statements. The actuary will determine an annual required contribution necessary to fund the liability over a 30-year period. The Township will need to consider this increased cost for budgeting purposes since the annual payments will not only include the cost of current health insurance premiums for retirees, which totaled \$1.4 million in the current fiscal year (spread between the General, Police, Fire, 41st District Court and Water and Sewer Funds), but also contributions to a pre-funding plan.

The statement will be effective for the Township's 2008 calendar year. The Township has proactively set up a separate fund to save money for this future expense. Currently, this fund is a special revenue fund. The Township has the option of implementing Act 149 of 1999 for funding the retiree health care fund in order to invest these monies in accordance with the Public Employees Retirement Investment Act. Over a long period, this should significantly reduce the burden of funding the retiree health care burden. There are some stipulations that come with the legislation, such as a prohibition against using the funds in the future for anything other than retiree health care.

It is also our understanding that the Township is in the process of reviewing the structure of health care plans within the Township. Changes in the Township's health care plans may impact the results of the actuarial study. In anticipation of the required 2008 implementation date, the Township should now consider updating the actuarial valuation performed a couple years ago.

Telecommunications Act Changes

Changes have been made by the State Legislature to restrict the ability of local governments to engage in telecommunications activities. Additionally, threats exist at both the Federal and State level to restrict or eliminate the ability of local governments to regulate and franchise cable television, which would impact franchise fees received by local governments. We encourage the Township to monitor such developments closely given the impact that a reduction in cable franchise fees could have on the Township's budget.

Internal Controls and Other Accounting Matters

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the Township's 2005 financial statements, we performed additional procedures as

required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 did not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the Board, administration and other employees throughout the Township; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. The Board should be pleased to note that the extra inquiries and testing that were required did not reveal any issues to be reported under the requirements of SAS 99.

However, as part of the Township's process of continuous improvement, we attempt to identify opportunities for the Township to revise or update its systems or procedures. With that in mind, we noted one matter related to Water and Sewer customer payments collected just before closing for the holidays. Based upon our discussions with Township personnel, the primary focus related to customer payments is on balancing the accounts within the Township's general ledger. Secondary is the banking or depositing the funds collected. During our testing, we noted that customer payments collected at the Water and Sewer department from December 19 through December 23, 2005 were not recorded in the general ledger until January 3, 2006 and were not deposited in the bank until January 4, 2006. As a result, the Township's customer receivable balance was overstated and cash was understated by the amount of these unrecorded payments as of December 31, 2005. Though these errors do not result in a misstatement of assets when considered together, it is important for accurate recordkeeping that all cash receipts be recorded in the proper period, regardless of when the deposit is made at the bank. Timely processing and depositing of cash receipts also minimizes the likelihood of misappropriation of the funds collected.

We thank the Township for the opportunity to serve as your auditors and for all the assistance and cooperation that we received from Mrs. Kathleen Moore, Mr. John Kreig, the financial management department, and all of the Township personnel we encountered throughout the audit. As always, if you have any questions or wish to discuss any matters, please do not hesitate to call.

Yours truly,

PLANTE & MORAN, PLLC



Christina M. Kostiuk



Lisa C. Manetta